STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7554

Investigation into Cooperative Electric Utilities' Accounting Treatment for Member Contributions in Aid of Construction for Line Extensions	)))

Order entered: 7/29/2011

ORDER RE MOTION TO AMEND

I. INTRODUCTION

In this Order, we reopen this docket for the limited purpose of considering a motion to amend our February 3, 2011, Order in this proceeding ("February Order"). The motion was filed by Vermont Electric Cooperative, Inc. ("VEC") on July 1, 2011. For the reasons set forth below, we grant VEC's motion and determine that VEC should allocate: (1) the accumulated balance of line-extension patronage capital from 1973 to 1997 to VEC members who used energy services in 1997; and (2) the line-extension patronage balances for the years 1998-2011 to VEC members who used energy services in each year.

II. BACKGROUND AND PROCEDURAL HISTORY

This docket is an investigation into cooperative utilities' accounting treatment for members' capital contributions for the construction of line extensions, commonly referred to as contributions-in-aid-of-construction ("CIAC"). At the time this proceeding was initiated, VEC and Washington Electric Cooperative, Inc. ("WEC") treated CIAC in accordance with the terms of a 1973 Accounting Order issued by the Public Service Board ("Board") that allowed electric cooperative utilities to record CIAC as "line-extension patronage capital"[1] (the "1973 Accounting

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1. Traditionally, "patronage capital" — also known as capital credits — refers to such amounts received and receivable from an electric cooperative's members for electric energy that are in excess of operating costs and expenses properly chargeable for the furnishing of that electric energy. All such amounts are received with the understanding that they are provided by the members as capital. Patronage capital becomes a cooperative utility's equity.

In this Order we refer to the traditional form of patronage capital as "energy patronage capital" to distinguish it from "line-extension patronage capital," which results from contributions-in-aid-of-construction for line

Order"); this procedure was not consistent with Generally Accepted Accounting Principles ("GAAP") or the Federal Energy Regulatory Commission's Uniform System of Accounts.

In the February Order, we concluded that the accounting procedure approved in the 1973 Accounting Order for the treatment for CIAC should be discontinued by both VEC and WEC. We required VEC and WEC to record future CIAC in a manner consistent with GAAP and allocate all line-extension patronage capital currently shown on their balance sheets to their members' energy patronage capital accounts. However, in recognition of the two utilities' different circumstances, we provided different implementation dates for each utility. We required VEC to begin recording future CIAC in a manner consistent with GAAP as of February 3, 2011, and, at the end of 2011, to use the same method it employs to allocate energy patronage capital to allocate all line-extension patronage capital currently shown on its balance sheet to the energy patronage capital accounts of existing VEC members who use energy services in that year.

With the issuance of the February Order and the expiration of the appeal period, this docket was closed.

On July 1, 2011, VEC filed a motion to amend the February Order. In its motion, VEC requested that the Board amend Order paragraph 3 of the February Order[2] to allow it to allocate: (1) the accumulated balance of line-extension patronage capital from 1973 to 1997 to members who took service in 1997; and (2) the line-extension patronage capital balances for the years 1998 to 2011 to the members who took service in each year. In support of its motion, VEC provided prefiled testimony by Michael L. Bursell, VEC's chief financial officer (referred to herein as "Bursell 2011 pf."). Attached to Mr. Bursell's testimony was an exhibit labeled "Exhibit VEC-MLB-1." Because we have already admitted an exhibit with that label in this

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extensions.

2. Order paragraph 3 of the February 3 Order provides:

> At the end of 2011, VEC shall use the same method it employs to allocate energy patronage capital to allocate all line-extension patronage capital currently shown on its balance sheet to the energy patronage capital accounts of existing VEC members who use energy services in that year.

proceeding, we will refer to the new exhibit as "Exhibit VEC-MLB-1-2011." We hereby admit the prefiled testimony and exh. VEC-MLB-1-2011 into evidence.[3]

On July 13, 2011, the DPS filed comments supporting VEC's motion to amend. No other party filed comments.

On July 20, 2011, VEC filed a proposal for decision.

III. Findings

1. From 1973 through 2010, VEC accumulated $17,186,364 in line-extension patronage balances. Of this amount, $7,166,538 was accumulated from 1973 to 1997. Bursell 2011 pf. at 2-3.

2. Since 1973, after each line-extension project paid for with CIAC was closed to plant, all VEC members paid depreciation on the project through the depreciation expense included in rates. Bursell 2011 pf. at 5.

3. Reallocating the cumulative line-extension patronage capital balance from 1973 to 1997 to members who took service in 1997, and the line-extension patronage capital recorded for 1998 to 2010 to members who took service in each year, more closely matches members who paid depreciation with those receiving the patronage allocation than does an allocation only to members who took service in 2011. This revised approach also spreads the allocation among a larger member group and closely follows the allocation method for VEC's energy patronage capital. Bursell 2011 pf. at 3, 5-6; exh. VEC-MLB-1-2011.

4. VEC would have no basis for allocating line-extension patronage capital to members prior to 1997. Bursell 2011 pf. at 5; findings 5-6, below.

5. The losses incurred by VEC during the years 1986 to 1996 (its "bankruptcy period") essentially wiped out all accumulated energy patronage capital balances beginning in 1987, when VEC had no positive energy patronage capital remaining. Bursell 2011 pf. at 4.

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3. Any party wishing to object to the admission of these documents into evidence should do so as part of a motion for reconsideration of this Order so that we may rule on the objection.

6. After emerging from bankruptcy in 1997, VEC began showing positive earnings. 1997 is the first year that it became possible for VEC to allocate energy patronage capital to members. Bursell 2011 pf. at 4.

7. VEC will be allocating energy patronage capital to its members, beginning with 1997 balances. Bursell 2011 pf. at 4.

IV. Discussion and Conclusion

The issuance of our February Order closed this proceeding. However, because VEC has asked to modify a specific paragraph of that Order, we determine that it would be more efficient to reopen this docket for the limited purpose of considering VEC's motion to amend, rather than considering the motion in a new proceeding.

In the February Order, we approved a proposal by VEC and the DPS to allocate all historical line-extension patronage capital balances to the energy patronage accounts of existing VEC members who use energy services in 2011.[4] We concluded that one of the benefits of this reallocation approach (as opposed to other methods considered for eliminating the line-extension patronage capital balances) was that it would share the patronage capital with those who are paying for the line extensions through depreciation expense.

However, as VEC began working to implement this requirement, it found that such a reallocation had an unanticipated result — it did not provide a very good match between the customers who paid the depreciation expense over time with those who would receive the reallocated patronage capital. In addition, the original reallocation would not have matched the methodology VEC intends to use to allocate energy patronage capital to its members.

We thank VEC for bringing this issue to our attention. It is important that the reallocation method be as fair and equitable as possible to VEC ratepayers. VEC's new proposed allocation methodology, while not perfect, would provide a considerably closer match between

4. As noted in footnote 17 of the February Order, there were some slight differences in the way various pieces of evidence described this agreement. The Hearing Officer explained her interpretation of the evidence — that the allocation would be made only to existing VEC members who use energy services in 2011. No party commented on this interpretation, and we subsequently adopted it.

customers receiving the reallocated patronage capital and those that have paid the depreciation expense over time.

Therefore, we grant VEC's motion to amend the February Order. Specifically, Order paragraph 3 will be modified to read:

> 3. By the end of 2011, VEC shall allocate:
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> - the line-extension patronage balance accumulated through 1997 in the same manner as energy patronage capital is to be allocated in 1997; and
>
> - line-extension patronage balances collected each year from 1998 through 2010 to members who used energy services in that year in the same manner that energy patronage capital is allocated in each year.

V. Order

It Is Hereby Ordered, Adjudged and Decreed by the Public Service Board of the State of Vermont that:

1. This docket is reopened for the limited purpose of considering the motion to amend filed by Vermont Electric Cooperative, Inc. ("VEC") on July 1, 2011.
2. VEC's motion to amend is granted.
3. Order paragraph 3 of our February 3, 2011, Order in this proceeding is modified to read:

> 3. By the end of 2011, VEC shall allocate:
>
> - the line-extension patronage balance accumulated through 1997 in the same manner as energy patronage capital is to be allocated in 1997; and
>
> - line-extension patronage balances collected each year from 1998 through 2010 to members who used energy services in that year in the same manner that energy patronage capital is allocated in each year.

4. This docket shall be closed.

Dated at Montpelier, Vermont, this 29th day of July, 2011.

s/ James Volz	)	
	)	PUBLIC SERVICE
	)	
s/ David C. Coen	)	BOARD
	)	
	)	OF VERMONT
s/ John D. Burke	)	

OFFICE OF THE CLERK

FILED: July 29, 2011

ATTEST: s/ Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.